

## **COMPETITIVENESS SCORECARD**

Governor Gary Locke convened the Washington Competitiveness Council to examine Washington's ability to compete in the global economy of the 21<sup>st</sup> century. The council met five times during the summer and fall of 2001. Council members identified competitiveness issues of greatest concern and developed recommendations to address them.

The final report contained 99 separate recommendations for improving the business climate in Washington State. Following the completion of the final report, the Economic Development Task Force also issued recommendations related to the state's direct role in economic development.

Since then, the council has strongly advocated for the implementation of these recommendations. Its members have repeatedly met with the Governor and the Washington State Legislature to emphasize the importance of this competitive agenda to the economic vitality of Washington State. They have also participated in press conferences, met with editorial boards, and participated in advisory groups in support of these recommendations.

Extraordinary effort led to remarkable results. The Governor and the Legislature have taken steps to implement more than half of these recommendations. This is a significant achievement given the considerable cost associated with many of these proposals and the current budget crisis. Governor Locke has implemented many of these recommendations via executive order or through instructions to his cabinet agencies. Many others were adopted in the 2002 or 2003 legislative session.

This document summarizes the actions of Governor Locke, and the Washington State Legislature to implement these recommendations and improve Washington's business climate.





## **2003 Legislative Session Highlights**

During the 2003 legislative session, the Legislature passed, and the Governor signed, 32 bills that advanced the Competitiveness Council agenda. Highlights include the following:

- A 10-year transportation improvement plan that provides \$4.2 billion in new transportation investments across the state, clarifies regional transportation authority, and includes improvements in transportation efficiency;
- Simplification of municipal B&O taxation and elimination of taxation of the same revenue by multiple cities;
- Incentives for the development of biodiesel fuels;
- Establishment of the Office of Regulatory Assistance within the Governor's office;
- Development of an integrated permit system through a multi-agency pilot project;
- Broadened authority for designation of industrial projects of statewide significance and its permit coordination provisions;
- Consolidation of the permit appeals process for certain projects;
- Expedited environmental review for residential and mixed-use projects within urban growth areas where development does not meet planned densities;
- Simplification of processes for the use of state highway rights-of-way for telecommunications facilities;
- Greater tuition-setting authority for universities;
- Authority for any public baccalaureate institution in the state to offer electrical engineering degrees;
- Improved articulation between apprenticeships and associate degree programs, and between two-year and four-year programs.
- Statutory establishment of the Economic Development Commission.





## 1.0 Taxes and Fees

### Council Findings

- Taxes and fees significantly affect Washington businesses' ability to compete. As businesses become increasingly mobile, they decide where to locate or expand based increasingly on the tax burden in a given locale.
- In its tax policy, Washington State must balance two competitiveness issues – the need to provide essential state services and the need to minimize the relative tax burden on business. Currently, Washington State's initial tax burden on business is one of the highest in the nation.

Recommendation	Implementation Steps
Avoid general tax increases and protect existing exemptions.	2002 operating budget passed without a general tax increase. Governor's 2003-05 operating budget proposal has no general tax increases.
Pay for transportation improvements with user fees. Consider regional taxes.	New revenue transportation funding package passed and signed in 2003 legislative session
Focus the efforts of the Tax Structure Study committee on modernization, equity, certainty, flexibility, and volatility.	Tax structure Study Commission report complete.
Review the manufacturing machinery and equipment exemption.	Governor directed the Department of Revenue to conduct an extensive review. At the request of industry, a stakeholder input process was completed. DOR clarified 12 issues with excise tax advisories.
Enact legislation for municipal tax simplification.	Executive request bill signed 4/21/2003. Bill creates a model ordinance providing a uniform municipal B&O tax system. Requires apportionment of business income between two or more cities.
Enact legislation to clarify taxation of investment income.	Executive request bill signed 3/26/2002. Bill clarifies the kinds of investment income that are deductible from B&O taxation. Provides greater predictability and encourages investment in Washington.
Reform the Unemployment Insurance (UI) system to make it more fair, predictable, and stable.	ESB 2901 passed in the 2002 session, but overturned by referendum. New proposal for the 2003 session still under development.
Explore the use of tax increment financing.	Executive request bill still under consideration in the 2003 special session.
Consider providing some kind of incentives for capital intensive firms.	SB 5725 signed 5/8/03. Provides a variety of tax exemptions to the semiconductor industry and its suppliers.
Consider tax credits and exemptions to stimulate investments in innovative energy strategies.	2SHB 1240 signed 5/14/03. 2SHB 1241 signed 4/18/2003. Both provide tax incentives for the development of biodiesel and alcohol fuels.





## 2.0 Regulatory and Permitting Issues

### Council Findings

- Washington's environmental regulations have improved the environment and the health of citizens. The competitiveness council does not seek to weaken Washington's environmental safeguards.
- Washington's current environmental regulatory system is a tangled structure that evolved in piecemeal fashion, resulting in an uncoordinated and inefficient regulatory regime. This is the primary cause of regulatory problems that damage Washington's competitiveness.
- The current regulatory structure unnecessarily delays projects, increases project cost, creates unnecessary uncertainty, reduces operating flexibility, and increases barriers to business growth. It stirs hostility toward government. It wastes resources, increasing government costs. It leads to angry applicants and it encourages project opponents to manipulate the permitting system.
- Washington's inadequate water systems impose uncertainty on businesses and growing communities.
- A lack of affordable housing impedes a company's ability to attract a quality workforce. Regulatory requirements that are overly burdensome can add cost to a home, and delays in obtaining permits can delay the availability of new housing.

Recommendation	Implementation Steps
Appoint a secretary of regulatory reform.	Governor Locke appointed Paul Isaki as Special Assistant for Business and Regulatory Reform.  SHB 1550 signed 4/18/2003. Establishes the Office of Regulatory Assistance within the Governor's office.
Establish benchmarks for timely permit decision-making	Department of Ecology has developed a permit benchmarking and diagnostic process. Baseline permit data have been gathered and targets have been set.  <i>Ecology has tripled the rate of water right transfers/changes since 2001.</i>
Provide positive and negative incentives to state agencies and local governments that issue permits in a timely manner.	Governor Locke issued Executive Order 03-01 directing agencies to enhance service delivery. First progress reports are due from agencies January 31, 2004. See <a href="http://www.governor.wa.gov/eo/eo_03-01.htm">http://www.governor.wa.gov/eo/eo_03-01.htm</a> .  HB 1526 signed April 18. It extends the deadline for establishment of voluntary cost-reimbursement agreements.
Enter into binding contracts with federal agencies.	Ecology is negotiating with the EPA and the U.S. Army Corps of Engineers to obtain more specific delineation of state and federal roles in permitting processes.  Regulatory oversight of some Nationwide Permit activities has been reduced. See Progress Report #3.
Institute regulatory reform at the Department of Ecology.	Paul Isaki is overseeing reforms at DOE.  Paul Trause and Paul Isaki are implementing similar reforms at L&I.  Ecology is implementing a "Transformation" plan under the guidance of the Regulatory Performance Advisors' Group. See Progress Report #3.

<b>Recommendation</b>	<b>Implementation Steps</b>
Require DOE to formally promulgate its 401 certification rules.	Ecology is working with an advisory group to develop procedures that will provide greater certainty to applicants.  Pilot project underway in the NW region July 1, 2002. See progress report #3.
Obtain full delegation of Clean Air Act Permitting.	Federal delegation of Prevention of Significant Deterioration (PSD) permit and insignificant emissions units signed Feb 7, 2002.
Create a business ombudsman and business sector managers.	SHB 1550 signed April 18, 2003. This bill creates the Office of Regulatory Assistance, which will serve as an information center for business and citizens.
Create a pilot program for permit streamlining.	Established several permit streamlining pilot projects with several large landowners that are pursuing multiple projects with complicated environmental issues.
Administratively adopt permit streamlining approaches.	Strategies for coordinated and expedited review of environmental permits are being implemented within current program guidelines by the Department of Ecology.  Office of Archeology and Historic Preservation has also implemented permit streamlining procedures. Permits are usually issued within 30 to 45 days--Emergency permits within 48 hours.
Create an executive director for coordination of multiple agency permits.	E2HB 2671 signed March 26, 2002. Moved leadership of the Office of Permit Assistance to the Governor's office.  SHB 1550 signed April 18, 2003. Changes the Office of Permit Assistance to the Office of Regulatory Assistance and provides broader responsibilities.
Fund the infrastructure required to make GMA workable.	SHB 1063 signed April 4, 2003. Funds the Public Works Trust Fund project list for \$71,666,061 in public works projects.
Provide local governments with procedural and substantive guidance for the environmental review of comprehensive plans and development regulations.	GMA planning staff provide technical and financial assistance to local governments to incorporate pre-permitting environmental review and to develop clear policies and regulations to ensure more certainty to businesses wanting to expand.  Using study results and experience to provide best practices and cost/benefit information. A best practices publication is anticipated.  HB 1707 signed May 14, 2003. Exempts from environmental review under SEPA residential and mixed-use projects within urban growth areas where development does not meet planned densities.
Include an economic development element in the GMA.	ESHB 2697 signed March 26, 2002. Adds economic development as a required element in the comprehensive plan for counties planning under GMA, except for residential communities.
Strengthen the positive incentives for complying with the GMA	SHB 1707 signed May 14, 2003. Exempts from environmental review under SEPA residential and mixed-use projects within urban growth areas where development does not meet planned densities.
Reduce the number of environmental adjudicative bodies by developing a unified hearings board system	SB 5776 signed 5/20/2003. Coordinates the permit appeals process for certain projects and moves them through the appeals process as one package.



Recommendation	Implementation Steps
Expand the Master business license program to cities.	Department of Licensing is developing systems needed to extend the program to cities. City of Sammamish went live with MLS on Feb 3, 2003. Kent, Tumwater, Bellevue, Everett, Federal Way, Kirkland, Lacey, Lynnwood, Olympia, Redmond, Renton, Seattle, Shoreline, are all in some stage of MLS development with DOL.
Delay implementation of the ergonomics rule.	Governor Locke delayed enforcement until July 2004. He also directed L&I to assist businesses in implementing the rule, including an ergonomics resource center, clearinghouse, checklists, small business task force, and ombudsman.
Establish model ordinances and best practices for municipal housing development.	CTED has developed a housing pilot program to demonstrate commercially viable affordable housing for low and middle-income residents inside urban growth areas. Web site inventory of existing completed projects will be completed June 30, 2003. Demonstration projects are also underway.
Search for and support a remedy to legal issues facing condominium developers.	SB 6409 signed April 2, 2002 provides builders an opportunity to cure condominium defects prior to court action.





## 3.0 Physical Infrastructure

### Council Findings

- Transportation, utilities, and telecommunications systems provide the basic support structure essential to a functioning economy. The state's infrastructure must ensure the fluid movement of people, products, and information.
- The most important competitive investment the state of Washington can make is to improve its transportation infrastructure with secure long-term funding and efficient operations.
- Washington should build more water storage capacity. Water laws and infrastructure do not adequately provide the capacity to meet 21st century demands and responsibilities.
- The state must reduce unnecessary delays in the siting of telecommunications and energy facilities.
- Low-cost and reliable electricity is a critical element of Washington's economy. Washington needs an energy strategy designed to ensure the availability of low-cost and reliable electricity. The recent energy crisis has financially weakened many of Washington's utilities. Their financial viability and access to capital are essential to their ability to provide for Washington's energy needs.
- The Pacific Northwest needs additional electrical transmission lines to meet expected growth in energy demand.

Recommendation	Implementation Steps
Pass a long-term comprehensive transportation solution that includes regional funding and accountability.	A 10-year transportation improvement plan that provides \$4.2 billion in new transportation investments across the state, clarifies regional transportation authority, and includes improvements in transportation efficiency
Secure long-term predictable funding for CERB.	Executive request bill, SHB 2425 signed March 28, 2002. Provides \$19 million over 5 years.  Executive request bill, SB 5363 signed May 8, 2003. Provides an additional 900,000 per year ongoing.
Establish processes for handling requests for placement of energy and telecommunication facilities on public lands.	HB 1005 signed March 26, 2002. Clarifies charges for easements on state-owned aquatic lands.  SB 5977 signed May 12, 2003. SB 5959 signed May 9. These bills clarify processes for use of highway rights-of-way for telecommunications facilities.
Press Congress and the administration to increase BPA's borrowing authority.	Governor Locke has expressed support via letter to Secretary Abraham, meetings with Federal Energy Regulatory Commission and congressional delegation, public speeches, and congressional testimony.  Congress passed and the president signed authorization for \$700 million in new BPA borrowing authority.

Recommendation	Implementation Steps
<p>Ensure that the state’s updated energy strategy focuses on maintaining Washington’s competitive advantage in supplying low-cost reliable electricity to the region’s energy dependent businesses.</p>	<p>OTED updated energy strategy with input from an advisory committee.</p> <p>Revised report available at <a href="http://www.energy.cted.wa.gov">www.energy.cted.wa.gov</a></p>



## 4.0 Human Capital and Innovation

### Council Findings

- Human capital and innovation are fundamental to gaining a competitive advantage in the modern economy. The success of companies, industries, and states increasingly depends on an educated, flexible workforce, their access to new technology, and their ability to rapidly innovate.
- Strength in education, research and development, and technology commercialization is essential to cultivating and nurturing a growing, competitive economy. Other states and regions are investing massively in these areas; therefore, Washington must act decisively or risk falling behind.

Recommendation	Implementation Steps
Identify and support industry clusters that are strategically important to the state's economic future.	Conduct a study to identify and describe Washington's industry clusters. Study is complete, but follow-on studies are being developed. Pilot projects to develop and implement cluster strategies and best practices are being developed.  Regional workforce development proposals have been funded by the Workforce Board, SBCTC and Employment Security.
Provide universities with greater flexibility in setting tuition.	SB 5448 signed May 12, 2003. Provides tuition-setting authority to universities for all students except resident undergraduates.
Authorize universities to finance research facilities with revenue bonds.	SHB 2736 signed March 26, 2002. Allows the UW and WSU to own and finance research facilities and related equipment supported by revenue generated by research. Allows the universities to finance these facilities using revenue bonds.
Authorize purchase of land by universities through real estate contracts.	Supported UW/WSU provisions included in HB 2736 in 2002 session. HB 1280 signed March 19, 2003. This bill clarified the authority proved in SHB 2736.
More vigorously market the federal Small Business Innovations Research (SBIR) grant program to Washington businesses.	WAFast program developed to increase number of Washington companies successful in obtaining SBIR grants. First year WAFast program completed. <i>Plans in place for program continuation and application for new federal grant.</i> See <a href="http://wafast.org/index.html">http://wafast.org/index.html</a> .
Exempt SBIR grants from the B&O tax.	Department of Revenue has developed briefing paper on budget implications.
Expand the Worker Retraining Program.	Operating budget for FY 01-03 included 1,320 of the 1,500 FTE enrollments requested by the Governor.
Allocate university enrollment increases to high demand fields.	Budget proposals includes approximately \$2 million high demand enrollment.
Increase the capacity to provide customized training for business recruitment or expansion.	Allocated \$750,000 in Governor's discretionary WIA funds to offset worker training costs for newly located and expanding businesses.

<b>Recommendation</b>	<b>Implementation Steps</b>
Deploy federal and state workforce training dollars more strategically, with priority to local training partnerships aimed at preparing people to meet high demand occupations and the workforce needs of local industry clusters.	Funded regional workforce development cluster proposals through Community Colleges, Workforce Board, and Employment Security.
Increase the role of registered apprenticeship in expanding and renewing the pool of skilled workers.	Continued establishment of apprenticeship program with J.R. Simplot in Pasco and Quincy. Program develops apprentices in three occupations: industrial maintenance electrician, industrial refrigeration technician, and industrial maintenance mechanic.  Four-year apprenticeships are underway for 24 apprenticeships. Most will complete the program in 2003.
Require workforce development councils to demonstrate that their strategic plans address current workforce needs.	Regional workforce development cluster proposals funded through Community Colleges, Workforce Board, and Employment Security
Encourage regional partnerships among community and technical colleges and industries in strategically important clusters to better match curriculum with industry need.	Encouraged coordination between workforce development councils and the private sector through regional cluster funding incentives through Community Colleges, Workforce Board, and Employment Security.
Increase funding for vocationally oriented English as a Second Language and Adult Basic Education programs at community colleges.	SBCTC funded pre-nursing program at Olympic Community College. Created Eastern Washington Agriculture-Food Processing Partnership. Trained over 750 incumbent workers for higher skilled jobs and provided ESL where necessary. Pre-nursing program begins this fall.
Develop a long-term strategy for enabling all students to achieve high academic standards, including those who speak English as a second language.	The Governor requested modifications to the Learning Assistance Program activities to reflect research-based best practices for assisting under-achieving students. SB 5877 is pending legislative action.
Extend the school day and school year to leverage assets.	Governor request legislation providing additional learning time by extending the school day and Saturday school. SB 5877. This legislation is pending legislative action.
Increase professional development support for teachers to obtain advanced credentials in science and math.	Bonuses for math and science teachers achieving certification from the National Board for Professional Teaching Standards included in budget. Budget is pending legislative action.
Create options for expanding the pool of qualified math and science teachers.	Startup funding for Central Washington University "Career Switcher" program to retrain displaced engineers to obtain teaching certificate in Secondary Math.  Will train 30 dislocated workers this year beginning this fall.



## 5.0 Benchmarking and Performance Measures

Recommendation	Implementation Steps
Reconvene the Economic Climate Study Advisory Board to revisit the benchmarks published in the Economic Climate Study.	Convened advisory board to make recommendations to the Forecast Council June 18, 2002. Recommendations accepted. Benchmarks are incorporated in Fall 2002 report. <a href="http://www.wa.gov/ofc/pubs/clim0902.pdf">http://www.wa.gov/ofc/pubs/clim0902.pdf</a> .
Reconvene the Economic and Revenue Forecast Council annually to discuss the benchmarks.	Convening Economic and Revenue Forecast Council to make recommendations. Recommendations made to the Forecast Council June 18, 2002. Recommendations accepted. Benchmarks are incorporated in Fall 2002 report. <a href="http://www.wa.gov/ofc/pubs/clim0902.pdf">http://www.wa.gov/ofc/pubs/clim0902.pdf</a>
Employ the resulting list of performance measures for state and policy analysis and agency performance reviews.	Reviewing Governor's scorecard to identify potential for Competitiveness Council Benchmarks. Directing agency directors to incorporate into performance agreements.







## 6.0 Recommendations of the Economic Development Task Force

Recommendation	Implementation Steps
Establish an Economic Development Commission.	Commission established by Executive Order September 24, 2002. HB 1509 established the Commission in statute.

---